~~THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM~~

~~CORE PRINCIPLES~~

~~OF~~

~~ACCOUNTABLE CORPORATE GOVERNANCE~~

> ~~*"Everywhere shareholders are re-examining their relationships with company bosses – what is known as their system of 'corporate governance.' Every country has its own, distinct brand of corporate governance, reflecting its legal, regulatory and tax regimes… The problem of how to make bosses accountable has been around ever since the public limited company was invented in the 19th century, for the first time separating the owners of firms from the managers who run them…."*~~
>
> ~~"Corporate Governance: Watching the Boss," THE ECONOMIST 3 (Jan. 29, 1994).~~

~~**California Public Employees' Retirement System**~~
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~~*Updated: August 13, 2007*~~

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I. INTRODUCTION

The California Public Employees' Retirement System (CalPERS) is the largest U.S. public pension fund, with assets totaling $210 billion spanning domestic and international markets as of July 31, 2006. ***Our mission is to advance the financial and health security for all who participate in the System. We will fulfill this mission by creating and maintaining an environment that produces responsiveness to all those we serve.*** This statement was adopted by the CalPERS Board of Administration to guide us in serving our more than 1.4 million members and retirees.

The CalPERS Board of Administration is guided by the Board's Investment Committee, management, and more than 180 Investment Office staff who carry out the daily activities of the investment program. Our goal is to efficiently and effectively manage investments to achieve the highest possible return at an acceptable level of risk. In doing so, CalPERS has generated strong long-term returns.

CalPERS' Corporate Governance[1] Program is a product of the evolution that only experience and maturity can bring. In its infancy in 1984-87, corporate governance at CalPERS was solely reactionary: reacting to the anti-takeover actions of corporate managers that struck a dissonant chord with one's sense – as owners of the corporate entity – of accountability and fair play. The late 1980s and early 1990s represented a period in which CalPERS learned a great deal about the "rules of the game" – how to influence corporate managers, what issues were likely to elicit fellow shareowner support, and where the traditional modes of shareowner/corporation communication were at odds with current reality.

Beginning in 1993, CalPERS turned its focus toward companies considered by virtually every measure to be "poor" financial performers. By centering its attention and resources in this way, CalPERS could demonstrate to those who questioned the value of corporate governance very specific and tangible economic results.[2]

What have we learned over the years? We have learned that (a) company managers want to perform well, in both an absolute sense and as compared to their peers; (b) company managers want to adopt long-term strategies and visions, but often do not feel that their shareowners are patient enough; and (c) all companies – whether governed under a structure of full accountability or not – will inevitably experience both ascents and descents along the path of profitability.

[1] "Corporate Governance," at CalPERS, means the "relationship among various participants in determining the direction and performance of corporations. The primary participants are (1) shareowners, (2) management (led by the chief executive officer), and (3) the board of directors." (Robert Monks and Nell Minow, CORPORATE GOVERNANCE 1 (1995).)

[2] See Steven L. Nesbitt, "Long-Term Rewards from Shareholder Activism: A Study of the 'CalPERS Effect'," J. OF APP. CORP. FIN. 75 (Winter 1994): Concluding that CalPERS' program generates approximately $150 million, per year, in added returns. See Mark Anson, Ted White, and Ho Ho "Good Corporate Governance Works: More Evidence from CalPERS," Journal of Asset Management, Vol.5,3 (February 204), 149-156. Also see "The Shareholder Wealth Effects of CalPERS' Focus List," Journal of Applied Corporate Finance, (Winter 2003), 8-17: The authors found that between 1992 and 2002, publication of the CalPERS "Focus List" and efforts to improve the corporate governance of companies on that list generated one-year average cumulative excess returns of 59.4%. Cumulative excess return is the cumulative "return earned over and above the risk-adjusted return required for each public corporation."

~~We have also learned, and firmly embrace the belief that good corporate governance – that is, accountable corporate governance – means the difference between wallowing for long periods in the depths of the performance cycle, and responding quickly to correct the corporate course. As one commentator noted:~~

> ~~*"Darwin learned that in a competitive environment an organism's chance of survival and reproduction is not simply a matter of chance. If one organism has even a tiny edge over the others, the advantage becomes amplified over time. In 'The Origin of the Species,' Darwin noted, `A grain in the balance will determine which individual shall live and which shall die.' I suggest that an independent, attentive board is the grain in the balance that leads to a corporate advantage. A performing board is most likely to respond effectively to a world where the pace of change is accelerating. An inert board is more likely to produce leadership that circles the wagons."*~~

~~Ira M. Millstein, New York Times, April 6, 1997, Money & Business Section, p. 10.~~

~~II.PURPOSE~~

~~The Core Principles of Accountable Corporate Governance ("Core Principles") create the framework by which CalPERS executes its proxy voting responsibilities in addition to providing a foundation for supporting the System's corporate engagement and governance initiatives. CalPERS implements its proxy voting responsibility and corporate governance initiatives in a manner that is consistent with the Core Principles unless such action may result in long-term harm to the company that outweighs all reasonably likely long-term benefit or unless such a vote is contrary to the interests of the beneficiaries of CalPERS' system.~~

~~The execution of proxies and voting instructions is the primary means by which shareowners can influence a company's operations and corporate governance. It is therefore important for shareowners to exercise their right to participate in the voting and make their decisions based on a full understanding of the information and legal documentation presented to them. CalPERS will vote in favor of or "For", an individual or slate of director nominees up for election that the System believes will effectively oversee CalPERS' interests as a shareowner consistent with the Core Principles.~~

~~However, CalPERS will withhold its vote from or vote "Against" an individual or slate of director nominees at companies that do not effectively oversee CalPERS' interests as a shareowner consistent with the Core Principles or in limited circumstances where a company has consistently demonstrated long-term economic underperformance.~~

~~CalPERS believes the criteria contained in the Core Principles are important considerations for all companies within the U.S. market. However, CalPERS recognizes that the adoption of the Core Principles in its entirety may not be appropriate for every company due to differing developmental stages, ownership structure, competitive environment, or a myriad of other distinctions. By adopting the Core Principles of Accountable Corporate Governance that follow, CalPERS strives to influence the market through advancing the corporate governance dialogue while also providing an~~

~~educational forum by representing a foundation for accountability between a corporation's management and its owners.~~

~~III. CORE PRINCIPLES of ACCOUNTABLE CORPORATE GOVERNANCE~~

~~Throughout this document, CalPERS has chosen to adopt the term "shareowner" rather than "shareholder." This is to reflect our view that equity ownership carries with it active responsibilities[3] and is not merely passively "holding" shares. The underlying tenet for CalPERS' Core Principles of Accountable Corporate Governance is that fully accountable corporate governance structures produce, over the long term, the best returns to shareowners.~~

~~CalPERS has found that there are many features that are important considerations in the continuing evolution of corporate governance best practices. Therefore, CalPERS recommends the following Core Principles:~~

1. **~~Corporate governance practices should focus board attention on optimizing the company's operating performance and returns to shareowners.~~**

2. **~~Directors should be accountable to shareowners, and management accountable to directors. To ensure this accountability, directors must be accessible to shareowner inquiry concerning their key decisions affecting the company's strategic direction.~~**

3. **~~Information about companies must be readily transparent to permit accurate market comparisons; this includes disclosure and transparency of objective globally accepted minimum accounting standard.~~**

4. **~~All investors must be treated equitably and upon the principle of one-share/one-vote.~~**

5. **~~Proxy materials should be written in a manner designed to provide shareowners with the information necessary to make informed voting decisions. Similarly, proxy materials should be distributed in a manner designed to encourage shareowner participation. All shareowner votes, whether cast in person or by proxy, should be formally counted with vote outcomes formally announced.~~**

6. **~~Each capital market in which shares are issued and traded should adopt its own Code of Best Practices; and, where such a code is adopted, companies should disclose to their shareowners whether they are in compliance.~~**

7. **~~Corporate directors and management should have a long-term strategic vision that, at its core, emphasizes sustained shareowner value. In turn, despite differing investment strategies and tactics, shareowners should encourage corporate management to resist short-term behavior by supporting and rewarding long-term superior returns.~~**

[3] ~~"For corporate governance structures to work effectively, Shareowners must be active and prudent in the use of their rights. In this way, Shareowners must act like owners and continue to exercise the rights available to them." (2005 CFA Institute: Centre for Financial Market Integrity, The Corporate Governance of Listed Companies: A Manual for Investors)~~

~~A. Board Independence & Leadership~~

~~Independence is the cornerstone of accountability. It is now widely recognized throughout the U.S. that independent boards are essential to a sound governance structure. Therefore, CalPERS recommends:~~

~~**1.At a minimum, a majority of the board consists of directors who are independent. Boards should strive to obtain board composition made up of a substantial[4] majority of independent directors.**~~

~~**2.Independent directors meet periodically (at least once a year) alone in an executive session, without the CEO. The independent board chair or lead (or presiding) independent director should preside over this meeting.**~~

~~**3.Each company should disclose in its annual proxy statement the definition of "independence" adopted or relied upon by its board. The board's definition of "independence" should address, at a minimum, those provisions set forth in Appendix A.**~~

~~**4.With each director nomination recommendation, the board should consider the issue of continuing director tenure and take steps as may be appropriate to ensure that the board maintains openness to new ideas and a willingness to critically re-examine the status quo.**~~

~~Nearly all corporate governance commentators agree that boards should be comprised of at least a majority of "independent directors." But the definitional independence of a majority of the board may not be enough in some instances.~~

~~The **leadership** of the board must embrace independence, and it must ultimately change the way in which directors interact with management.~~

> ~~*"In the past, the CEO was clearly more powerful than the board. In the future, both will share influence. In a sense, directors and the CEO will act as peers. Significant change must occur in the future if boards are to be effective monitors and stimulators of strategic change. Directors and their CEOs must develop a new kind of relationship, which is more complex than has existed in the past. . . ."*~~

~~Jay W. Lorsch, "The Board as A Change Agent," THE CORPORATE BOARD 1 (July/Aug, 1996).~~

~~[4] The National Association of Corporate Directors' (NACD's) Blue Ribbon Commission on Director Professionalism released its report in November 1996. (Hereafter "NACD Report") The NACD Report calls for a "substantial majority" of a board's directors to be independent. The Business Roundtable's Principles of Corporate Governance (November 2005, hereafter "BRT Principles") is in general accord that a "substantial majority" of directors should be independent, both in fact and appearance, as determined by the board. (BRT Principles, p.14) Neither the NACD, nor BRT, define "substantial."~~

~~Lastly, independence also requires a lack of conflict between the director's personal, financial, or professional interests, and the interests of shareowners.~~

> ~~*"A director's greatest virtue is the independence which allows him or her to challenge management decisions and evaluate corporate performance from a completely free and objective perspective. A director should not be beholden to management in any way. If an outside director performs paid consulting work, he becomes a player in the management decisions which he oversees as a representative of the shareholder…."*~~

~~Robert H. Rock, Chairman NACD, DIRECTORS & BOARDS 5 (Summer 1996).~~

~~Accordingly, to instill independent leadership, CalPERS recommends that:~~

~~**5.The board should be chaired by an independent director. The CEO and chair roles should only be combined in very limited circumstances; in these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interest of shareowners, and it should name a lead independent director to fulfill duties that are consistent with those provided in Appendix B.**~~

~~**6.When selecting a new chief executive officer, boards should re-examine the traditional combination of the "chief executive" and "chair" positions.**~~

~~**7.Generally, a company's retiring CEO should not continue to serve as a director on the board and at the very least be prohibited from sitting on any of the board committees.**~~[5]

~~**8.Corporate insiders are not considered independent and should therefore not constitute any more than one board seat.**~~

~~**9.Certain board committees consist entirely of independent**~~[6] ~~**directors. These include the committees who perform the audit, director nomination, CEO evaluation, and executive compensation functions.**~~

~~**10.The full board is responsible for the oversight function on behalf of shareowners. Should the board decide to have other committees (e.g. executive committee) in addition to those required by law, the duties and membership of such committees should be fully disclosed.**~~

[5] ~~"What about losing the accumulated experience of the retiring CEO? That is easily solved. If the new CEO wants to tap the perceived wisdom and experience of the retired CEO, a telephone call or a quiet meeting does not require a board seat." (Former Citicorp Chairman Walter Wriston, "Resist the Desire to Stay On," DIRECTORS & BOARDS (Spring 1993) 35.)~~

[6] ~~As defined in Appendix A.~~

~~B. Board Processes & Evaluation~~

~~No board can truly perform its overriding function of establishing a company's strategic direction and then monitoring management's success without a system of evaluating itself. CalPERS views this self-evaluation to have several elements, including:~~

~~**1. The board has adopted and disclosed a written statement of its own governance principles, and regularly re-evaluates them.**~~

~~**2. The board has adopted and disclosed an annual board, committee, and individual director evaluation process.**~~

~~**3. With each director nomination recommendation, the board considers the mix of director characteristics, experiences, diverse perspectives and skills that is most appropriate for the company. The board should address historically under-represented groups on the board, including woman and minorities.**~~[7]

~~**4. The independent directors establish performance criteria and compensation incentives for the CEO, and regularly reviews the CEO's performance against those criteria. The independent directors have access to advisers on this subject, who are independent of management. Minimally, the criteria ensure that the CEO's interests are aligned with the long-term interests of shareowners, that the CEO is evaluated against comparable peer groups, and that a portion of the CEO's total compensation is at risk.**~~

~~**5. The board should have in place and disclose an effective CEO succession plan, and receive periodic reports from management on the development of other members of senior management.**~~

~~**6. All directors should have access to senior management. However, the CEO, Chair, or Independent Lead Director may be designated as liaison between management and directors to ensure that the role between board oversight and management operations is respected.**~~

~~**7. The board should periodically review its own size, and determine the size that is most effective toward future operations.**~~

[7] ~~CalPERS does not believe that each director must possess all of the core competencies. Rather, we believe that each director should contribute some knowledge, experience or skill in at least one domain that is critical to the company.~~

~~C. Individual Director Characteristics~~

~~In CalPERS' view, each director should fit within the skill sets identified by the board as necessary to focus board attention on optimizing the company's operating performance and returns to shareowners. No director, however, can fulfill his or her potential as an effective board member without a personal dedication of time and energy. Corporate boards should therefore have an effective means of evaluating individual director performance.~~

~~With this in mind, CalPERS recommends that:~~

1. **~~The board adopts guidelines and disclose annually in the company's proxy statement[8] to address the competing time commitments that are faced when director candidates, especially acting CEOs[9], serve on multiple boards.~~**

2. **~~Each board should establish performance criteria not only for itself (acting as a collective body) or for the key committees; but also individual behavioral expectations for its directors. Minimally, these criteria should address the level of preparedness and participation.~~**

3. **~~Directors should be expected to attend at least 75% of the meetings of the boards and board committees on which they sit.~~**

4. **~~To be re-nominated, directors must satisfactorily perform based on the established criteria. Re-nomination on any other basis should neither be expected nor guaranteed.~~**

5. **~~The board should establish and make available to shareowners the skill sets the board seeks from director candidates. Minimally, these core competencies should address accounting or finance, international markets, business or management experience, industry knowledge, customer-base experience or perspective, crisis response, or leadership or strategic planning.~~**

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[8] ~~See NACD Report, at p. 10-12 recommending that candidates who are CEOs or senior executives of public corporations be "preferred" if they hold no more than 1-2 public company directorships; other candidates who hold full-time positions be preferred if they hold no more than 3-4 public company directorships; and all other candidates be preferred if they hold no more than 5-6 other public company directorships.~~

[9] ~~"The job of being the CEO of a major corporation is one of the most challenging in the world today. Only extraordinary people are capable of performing it adequately; a small portion of these will appropriately be able to commit some energy to directorship of one other enterprise. No CEO has time for more than that." (Robert A.G. Monks, "Shareholders and Director Section", DIRECTORS & BOARDS (Autumn 1996 p.158)~~

~~D. Executive & Director Compensation~~

~~Compensation programs are one of the most powerful tools available to the company to attract, retain, and motivate key employees, as well as align their interests with the long-term interests of shareowners. Poorly designed compensation packages can have disastrous impacts on the company and its shareowners by incentivising short-term oriented behavior. Conversely, well-designed compensation packages can help align management with owners and drive long-term performance. Since equity owners have a strong interest in long-term performance and are the party whose interests are being diluted, CalPERS believes shareowners should provide stronger oversight of executive compensation programs.~~

~~In recognition of this, CalPERS believes that companies should formulate executive compensation policies on a periodic basis. CalPERS does not generally believe that it is optimal for shareowners to approve individual contracts at the company specific level. Rather, executive compensation policies should be comprehensive enough to provide shareowners with oversight of how the company will design and implement compensation programs, yet broad enough to permit the board of directors flexibility in implementing the policy.~~

~~Implicit in CalPERS' Core Principles related to executive compensation is the belief that the philosophy and practice of executive compensation needs to be more performance-based. Through its efforts to advocate executive compensation reform, CalPERS emphasizes the alignment of interests between executive management and shareowners, and enhanced Compensation Committee accountability for executive compensation.~~

~~1. Executive compensation programs should be designed and implemented by the board, through an independent compensation committee, to ensure alignment of interest with the long-term interests of shareowners while not restricting the company's ability to attract and retain competent executives.~~

~~2. Executive compensation should be comprised of a combination of cash and equity based compensation, and direct equity ownership should be encouraged.~~

~~3. Executive compensation policies should be transparent to shareowners. The policies should contain, at a minimum, compensation philosophy, the targeted mix of base compensation and "at risk" compensation, key methodologies for alignment of interest, and parameters for guidance of employment contract provisions, including severance packages. Appendix C sets forth the specific areas that executive compensation policies should address.~~

~~4. Companies should submit executive compensation policies to shareowners for non-binding approval.~~

~~5. Executive contracts should be fully disclosed, with adequate information to judge the "drivers" of incentive components of compensation packages.~~

~~6.Director compensation should be a combination of cash and stock in the company.~~

~~E. Audit Integrity~~

~~The company should support the development of accurate audited financial statements. CalPERS believes annual audits of financial statements should be required for all companies and carried out by an independent external auditor. This audit should provide an objective opinion that the financial statements present fairly, in all material respects, the financial position of the company in conformity with applicable laws, regulations and standards.~~

~~To ensure the integrity of audited financial statements, the corporation's interaction with the external auditor should be overseen by the Audit Committee on behalf of the shareowners. The Audit Committee should clearly disclose any non-audit services completed by the auditor and provide supporting evidence that the relationship does not affect the auditor's independence.~~

1. **~~The selection of the independent external auditor should be ratified by shareowners annually.~~**

2. **~~The board, through its independent Audit Committee, should ensure that excessive non-audit fees are prohibited. To limit the risk of possible conflicts of interest and independence of the auditor, non-audit services and fees paid to auditors for non-audit services should both be approved in advance by the Audit Committee and disclosed in the proxy statement on an annual basis.~~**

~~F.~~ ~~Corporate Responsibility~~

~~Shareowners can be instrumental in encouraging responsible corporate citizenship. CalPERS believes that environmental, social, and corporate governance issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes through time.) Therefore, CalPERS joined 19 other institutional investors from 12 countries to develop and become a signatory to The Principles for Responsible Investment (Appendix D).~~

~~CalPERS expects companies whose equity securities are held in the Fund's portfolio to conduct themselves with propriety and with a view toward responsible corporate conduct. If any improper practices come into being, companies should move decisively to eliminate such practices and effect adequate controls to prevent recurrence. A level of performance above minimum adherence to the law is generally expected. To further these goals, in September 1999 the CalPERS Board adopted the Global Sullivan Principles of Corporate Social Responsibility.~~

~~CalPERS believes that boards that strive for active cooperation between corporations and stakeholders[10] will be most likely to create wealth, employment and sustainable economies. With adequate, accurate and timely data disclosure of environmental, social, and governance practices, shareowners are able to more effectively make investment decisions by taking into account those practices of the companies in which the Fund invests. Therefore, CalPERS recommends that:~~

1. **~~Corporations adopt maximum progressive practices toward the elimination of human rights violations in all countries or environments in which the Company operates. Adherence to a formal set of principles such as those exemplified in Appendix E, the Global Sullivan Principles[11], is recommended.~~**

2. **~~To ensure sustainable long-term returns, companies should provide accurate and timely disclosure of environmental risks and opportunities, through adoption of policies or objectives, such as those associated with climate change. Companies should apply the Global Framework for Climate Risk Disclosure[12] (Appendix F) when providing such disclosure.~~**

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[10] ~~In accordance with the Global Reporting Initiative: Stakeholders are defined broadly as those groups or individuals: (a) that can reasonably be expected to be significantly affected by the organization's activities, products, and/or services; or (b) whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives.~~

[11] ~~CalPERS adopted the Global Sullivan Principles of Corporate Social Responsibility in September 1999.~~

[12] ~~Additional information on the Framework and a Guide for Using the Global Framework for Climate Risk Disclosure is available on the CalPERS website: www.calpers-governance.org.~~

~~**3.Corporations strive to measure, disclose, and be accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. It is recommended that corporations adopt the Global Reporting Initiative Sustainability Reporting Guidelines[13] to disclose economic, environmental, and social impacts.**~~

~~**4.When considering reincorporation, corporations should analyze shareowner protections, company economic, capital market, macro economic, and corporate governance considerations.**~~

~~[13] Adoption of the Guidelines will provide companies with a reporting mechanism through which to disclose, at a minimum, implementation of the Global Sullivan Principles and the Global Framework for Climate Risk Disclosure. The Guidelines along with additional information on GRI can be found at www.globalreporting.org.~~

~~G. Shareowner Rights~~

~~Shareowner rights~~[14] ~~– or those structural devices that define the formal relationship between shareowners and the directors to whom they delegate corporate control – should be featured in the governance principles adopted by corporate boards. Therefore, CalPERS recommends that corporations adopt the following corporate governance principles affecting shareowner rights:~~

1. ~~**A majority of proxies cast should be able to amend the company's bylaws by shareowner proposal.**~~

2. ~~**A majority of shareowners should be able to call special meetings or act by written consent.**~~

3. ~~**In an uncontested director election, a majority of proxies cast should be required to elect a director. In a contested election, a plurality of proxies cast should be required to elect a director.**~~

4. ~~**A majority of proxies cast should be able to remove a director with or without cause. Unless the incumbent director has earlier resigned, the term of the incumbent director should not exceed 90 days after the date on which the voting results are determined.**~~

5. ~~**Shareowners should have the right to sponsor resolutions. A shareowner resolution that is approved by a majority of proxies cast should be implemented by the board.**~~

6. ~~**Every company should prohibit greenmail.**~~

7. ~~**No board should enact nor amend a poison pill except with shareowner approval.**~~

8. ~~**Every director should be elected annually.**~~

9. ~~**Proxies should be kept confidential from the company, except at the express request of shareowners.**~~

10. ~~**Broker non-votes should be counted for quorum purposes only.**~~

11. ~~**Shareowners should have effective access to the director nomination process.**~~

[14] Lucian Bebchuk, Alma Cohen, and Allen Ferrell, "What matters in Corporate Governance," (2004), The John M. Olin Center for Law, Economics and Business of Harvard University: Found that portfolios of Companies with strong Shareowner-rights protections outperformed portfolios of Companies with weaker protections by 8.5% per year.

~~12.Shareowners should have the right to cumulate[15] votes in the election of directors.~~

[15] Such a right gives shareowners the ability to aggregate their votes for directors and either cast all of those votes for one candidate or distribute those votes for any number of candidates.

~~IV. CONCLUSION~~

~~By adopting the Core Principles of Accountable Corporate Governance, CalPERS strives to influence the market through advancing the corporate governance dialogue while also providing an educational forum by representing a foundation for accountability between a corporation's management and its owners. With continued experience and communication between corporate managers and owners, the issue of accountability can become – if not resolved – more clear.~~

> ~~*"As conflict – difference – is here in the world, as we cannot avoid it, we should, I think, use it. Instead of condemning it, we should set it to work for us… So in business, we have to know when to … try to capitalize [on conflict], when to see what we can make it do…. [In that light] it is possible to conceive of conflict as not necessarily a wasteful outbreak of incompatibilities but a normal process by which socially valuable differences register themselves for the enrichment of all concerned…. Conflict at the moment of the appearing and focusing of difference may be a sign of health, a prophecy of progress."*~~

~~THE PRICE WATERHOUSE CHANGE INTEGRATION TEAM, THE PARADOX PRINCIPLES 275 (quoting Mary Parker Follett) (1996).~~

~~DEFINITION OF INDEPENDENT DIRECTOR~~

~~“Independent director” means a director who:~~

- ~~Is not currently, or within the last five years~~[16] ~~has not been, employed by the Company in an executive capacity.~~

- ~~Has not received more than $50,000~~[17] ~~in direct compensation from the Company during any 12-month period in the last three~~[18] ~~years other than:~~

  ~~i.Director and committee fees including bona fide expense reimbursements.~~
  ~~ii.Payments arising solely from investments in the company’s securities.~~

- ~~Is not affiliated with a company that is an adviser or consultant to the Company or a member of the Company’s senior management during any 12-month period in the last three years that has received more than $50,000 from the Company.~~

- ~~Is not a current employee of a company (customer or supplier) that has made payments to, or received payments from the Company that exceed the greater of $200,000~~[19] ~~or 2%~~[20] ~~of such other company’s consolidated gross revenues.~~

- ~~Is not affiliated with a not-for-profit entity (including charitable organizations) that receives contributions from the Company that exceed the greater of $200,000 or 2% of consolidated gross revenues of the recipient for that year.~~

- ~~Is not part of an interlocking directorate in which the CEO or other employee of the Company serves on the board of another company employing the director.~~

- ~~Has not had any of the relationships described above with any parent or subsidiary of the Company.~~

- ~~Is not a member of the immediate family~~[21] ~~of any person described in Appendix A.~~

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16 5-year look back periods are consistent the Council of Institutional Investors 2006 director independence standards.

17 $50,000 thresholds are consistent with the Council of Institutional Investors 2006 director independence standards.

18 3-year look back periods are consistent with the New York Stock Exchange and Nasdaq 2006 director independence standards.

19 $200,000 thresholds are consistent with Nasdaq 2006 director independence standards.

20 2% thresholds are consistent with New York Stock Exchange director independence standards.

21 CalPERS defines immediate family consistent with the New York Stock Exchange: spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone who shares such person’s home.

~~**APPENDIX B**~~

~~INDEPENDENT CHAIR/LEAD DIRECTOR POSITION DUTY STATEMENT~~

~~The independent Chair is responsible for coordinating the activities of the Board of Directors including, but not limited to, those duties as follows:~~

- ~~Coordinate the scheduling of board meetings and preparation of agenda material for board meetings and executive sessions of the board's independent or non-management directors.~~
- ~~Lead board meetings in addition to executive sessions of the board's independent or non-management directors.~~
- ~~Define the scope, quality, quantity and timeliness of the flow of information between Company management and the board that is necessary for the board to effectively and responsibly perform their duties.~~
- ~~Oversee the process of hiring, firing, evaluating, and compensating the CEO.~~
- ~~Approve the retention of consultants who report directly to the board.~~
- ~~Advise the independent board committee chairs in fulfilling their designated roles and responsibilities to the board.~~
- ~~Interview, along with the chair of the nominating committee, all board candidates, and make recommendations to the nominating committee and the board.~~
- ~~Assist the board and Company officers in assuring compliance with and implementation of the Company's Governance Principles.~~
- ~~Act as principal liaison between the independent directors and the CEO on sensitive issues.~~
- ~~Coordinate performance evaluations of the CEO, the board, and individual directors.~~
- ~~Recommend to the full board the membership of the various board committees, as well as selection of the committee chairs.~~
- ~~Be available for communication with shareowners.~~

~~Executive Compensation Policies~~

~~To ensure the proper alignment of executive compensation practices with shareowner interests, annual disclosure of the following provisions, at a minimum, should be addressed:~~

~~A.Structure and Components of Total Compensation~~

1. ~~Details should include reasonable ranges based on total compensation within which the company will target base salary as well as other components of total compensation. Overall targets of total compensation should also be provided.~~

2. ~~Details should include how much of overall compensation is based on peer relative analysis and how much of it is based on other criteria.~~

~~B.Incentive Compensation~~

1. ~~A significant portion of executive compensation should be comprised of "at risk" pay or tied to the attainment of achieving performance objectives.~~

2. ~~The types of incentive compensation to be awarded should be disclosed.~~

3. ~~Performance objectives[22] should be set before the start of a compensation period while the previous years' objectives which triggered incentive payouts should be disclosed.~~

4. ~~Plan design should utilize multiple performance metrics when linking pay to performance.~~

5. ~~Meaningful performance hurdles that align the interests of management with long-term shareowners should be established with incentive compensation being directly tied to the attainment and/or out-performance of such hurdles[23].~~

6. ~~Incentive compensation should include provisions by which "at risk" compensation will not be paid if performance hurdles are not obtained.~~

7. ~~Provisions for the resetting of performance hurdles in the event that incentive grants are retested[24] should be disclosed.~~

8. ~~Companies should develop and disclose a policy for recapturing incentive payments that were made to executives on the basis of having met or exceeded performance targets~~

~~[22] Performance objectives include, but are not limited to, Return on Invested Capital (ROIC), Return on Assets (ROA), and Return on Equity (ROE).~~

~~[23] Executive compensation should directly link the interests of senior management, both individually and as a team, to the long-term interests of shareholders. It should include significant performance-based criteria related to long-term shareholder value and should reflect upside potential and downside risk. (BRT Principles pg. 24)~~

~~[24] "Retested" means extending a performance period to enable initial targets to be achieved.~~

~~during a period of fraudulent activity or a material negative restatement of financial results for which executives are found personally responsible.~~

~~9. A process should be disclosed by which additional compensation for executives, which coincides with the sale or purchase of substantial company assets, can be ratified by shareowners.~~

~~C. Equity Compensation~~

~~1. Equity based compensation plans should incorporate the achievement of performance-based components that provide for the vesting of equity grants which include premium priced options, index-based options, and performance targets tied to company specific metrics that are required to achieve vesting. Time accelerated vesting is not a desirable performance based methodology.~~

~~2. In the event of a merger, acquisition, or change in control, unvested equity should not accelerate but should instead convert into the equity of the newly formed company.~~

~~3. Companies should develop and disclose a policy for recapturing dividend equivalent payouts on equity that does not vest.~~

~~4. Equity grants should vest over a period of at least three years.~~

~~5. The board's methodology and corresponding details for approving stock options for both directors and employees of the company should be highly transparent and include discloser of: 1) quantity, 2) grant date, 3) strike price, and 4) the underlying stock's market price as of grant date. The approval and granting of stock options for both directors and employees should preferably occur on a date when all corporate actions are taken by the board. The board should also require a report from the Chief Executive Officer stating specifically how the board's delegated authority to issue stock options to employees was used during the prior year.~~

~~6. Equity grant repricing without shareowner approval should be prohibited.~~

~~7. "Evergreen"[25] or "Reload"[26] provisions should be prohibited.~~

~~8. The company's philosophy related to how equity-based compensation will be distributed within various levels of the company should be disclosed.~~

~~9. Provisions for addressing the issue of dilution, the intended life of an equity plan, and the expected yearly run rate of the equity plan should be disclosed.~~

~~[25] Evergreen provisions provide a feature that automatically increases the shares available for grant on an annual basis. Evergreen provisions include provisions for a set number of shares to be added to the plan each year, or a set percentage of outstanding shares.~~

~~[26] Reload provisions allow an optionee who exercises a stock option using stock already owned to receive a new option for the number of shares used to exercise. The intent of reload options is to make the optionee whole in cases where they use existing shares they own to pay the cost of exercising options.~~

~~10.If the company intends to repurchase equity in response to the issue of dilution, the equity plan should clearly articulate how the repurchase decision is made in relation to other capital allocation alternatives.~~

~~11.All equity based compensation plans or material changes to existing equity based compensation plans should be shareowner approved.~~

~~12.Reasonable ranges within which the board will target the total cost of new or material changes to existing equity based compensation plans should be disclosed. The cost of new or material changes to existing equity based compensation plans should not exceed that of the company's peers unless the company has demonstrated consistent long-term economic out performance on a peer relative basis.~~

~~D.Use and Disclosure of Severance Agreements~~

~~1.In cases where the company will consider severance agreements[27], the policy should contain the overall parameters of how such agreements will be used including the specific detail regarding the positions within the company that may receive severance agreements; the maximum periods covered by the agreements; provisions by which the agreements will be reviewed and renewed; any hurdles or triggers that will affect the agreements; a clear description of what would and would not constitute termination for cause; and disclosure of where investors can view the entire text of severance agreements.~~

~~2.A definitive time frame in which the company will disclose any material amendments made to severance agreements should be disclosed.~~

~~3.Severance payments that provide benefits[28] with a total present value exceeding market standards[29] should be ratified by shareowners.~~

~~E.Use of "Other" Forms of Compensation~~

~~1.Compensation policies should include guidelines by which the company will use alternative forms[30] of compensation, and the relative weight in relation to overall compensation if "other" forms of compensation will be utilized.~~

~~2.To the degree that the company will provide other forms of compensation, it should clearly articulate its philosophy for utilizing these tools with specific treatment of how shareowners should expect to realize value from these other forms of compensation.~~

~~[27] Severance agreement means any agreement that dictates what an executive will be compensated when the company terminates employment without cause or when there is a termination of employment following a finally approved and implemented change in control.~~

~~[28] Severance benefits mean the value of all cash and non-cash benefits, including, but not limited to, the following: (i) cash benefits; (ii) perquisites; (iii) consulting fees; (iv) equity and the accelerated vesting of equity, (v) the value of "gross-up" payments; and (vi) the value of additional service credit or other special additional benefits under the company's retirement system. Severance benefits do not include already accrued pension benefits.~~

~~[29] The disclosed threshold in the United States should not exceed 2.99 times the sum of the executive's base salary plus target bonus.~~

~~[30] "Other" forms of compensation include, but are not limited to, pension benefits including terms of deferred pay, perquisites and loans.~~

~~F.Use of Retirement Plans~~

1. ~~Defined contribution and defined benefit retirement plans should be clearly disclosed in tabular format showing all benefits available whether from qualified or non-qualified plans and net of any offsets.~~

~~Principles for Responsible Investment~~

~~Launched in April 2006, The Principles for Responsible Investment (PRI) provides the framework for investors to give appropriate consideration to environment, social and corporate governance (ESG) issues. The PRI was an initiative of the UN Secretary-General and coordinated by UNEP Finance Initiative and the UN Global Compact. An international working group of 20 institutional investors was supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia. CalPERS is one of the original signatories.~~

~~The Principles~~

1. ~~We will incorporate ESG issues into investment analysis and decision-making processes.~~

2. ~~We will be active owners and incorporate ESG issues into our ownership policies and practices.~~

3. ~~We will seek appropriate disclosure on ESG issues by the entities in which we invest.~~

4. ~~We will promote acceptance and implementation of the Principles within the investment industry.~~

5. ~~We will work together to enhance our effectiveness in implementing the Principles.~~

6. ~~We will each report on our activities and progress towards implementing the Principles.~~

~~In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.~~

~~We encourage other investors to adopt the Principles.~~

~~Additional information can be found at~~ www.unpri.org~~.~~

~~**APPENDIX E**~~

~~The Global Sullivan Principles~~

~~The Preamble~~

~~The Objectives of the Global Sullivan Principles are to support economic, social and political justice by companies where they do business, to support human rights and to encourage equal opportunity at all levels of employment, including racial and gender diversity on decision making committees and Boards; to train and advance disadvantaged workers for technical, supervisory and management opportunities; and to assist with greater tolerance and understanding among peoples, thereby, helping to improve the quality of life for communities, workers and children with dignity and equality.~~

~~I urge companies large and small in every part of the world to support and follow the Global Sullivan Principles of corporate social responsibility wherever they have operations.~~

~~The Reverend Leon H. Sullivan~~

~~The Principles~~

~~As a company which endorses the Global Sullivan Principles we will respect the law, and as a responsible member of society we will apply these Principles with integrity consistent with the legitimate role of business. We will develop and implement company policies, procedures, training and internal reporting structures to ensure commitment to these principles throughout our organization. We believe the application of these Principles will achieve greater tolerance and better understanding among peoples, and advance the culture of peace.~~

~~Accordingly, we will:~~

- ~~Express our support for universal human rights and, particularly, those of our employees, the communities within which we operate, and parties with whom we do business.~~
- ~~Promote equal opportunity for our employees at all levels of the company with respect to issues such as color, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude, or other forms of abuse.~~
- ~~Respect our employees' voluntary freedom of association.~~
- ~~Compensate our employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.~~
- ~~Provide a safe and healthy workplace; protect human health and the environment; and promote sustainable development.~~
- ~~Promote fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes.~~
- ~~Work with governments and communities in which we do business to improve the quality of life in those communities – their educational, cultural, economic and social well-being – and seek to provide training and opportunities for workers from disadvantaged backgrounds.~~
- ~~Promote the application of these principles by those with whom we do business.~~

~~We will be transparent in our implementation of these principles and provide information which demonstrates, publicly, our commitment to them.~~

~~Global Framework for Climate Risk Disclosure~~

~~While each sector and company may differ in its approach to disclosure, the most successful corporate climate risk disclosure will be transparent and make clear the key assumptions and methods used to develop it. Companies should directly engage investors and securities analysts in disclosing climate risk through both written documents and discussions.~~

~~Investors expect climate risk disclosure to allow them to analyze a company's risks and opportunities and strongly encourage that the disclosure include the following elements:~~

~~1.**Emissions – As an important first step in addressing climate risk, companies should disclose their total greenhouse gas emissions. Investors can use this emissions data to help approximate the risk companies may face from future climate change regulations.**~~

~~Specifically, investors strongly encourage companies to disclose:~~

- ~~Actual historical direct and indirect emissions since 1990;~~
- ~~Current direct and indirect emissions; and~~
- ~~Estimated future direct and indirect emissions of greenhouse gases from their operations, purchased electricity, and products/services.[31]~~

~~Investors strongly encourage companies to report absolute emissions using the most widely agreed upon international accounting standard – Corporate Accounting and Reporting Standard (revised edition) of the Greenhouse Gas Protocol, developed by the World Business Council for Sustainable Development and the World Resources Institute.[32] If companies use a different accounting standard, they should specify the standard and the rationale for using it.~~

~~2.**Strategic Analysis of Climate Risk and Emissions Management – Investors are looking for analysis that identifies companies' future challenges and opportunities associated with climate change. Investors therefore seek management's strategic analysis of climate risk, including a clear and straightforward statement about implications for competitiveness. Where relevant, the following issues should also be addressed: access to resources, the timeframe that applies to the risk and the firm's plan for meeting any strategic challenges posed by climate risk.**~~

~~Specifically, investors urge companies to disclose a strategic analysis that includes:~~

~~[31] These emissions disclosures correspond with the three "scopes" identified in the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition) developed by the World Business Council for Sustainable Development and the World Resources Institute. Scope 1 includes a company's direct greenhouse gas emissions; Scope 2 includes emissions associated with the generation of electricity, heating/cooling, or steam purchased for a company's own consumption; and Scope 3 includes indirect emissions not covered by Scope 2. More information is available at http://www.ghgprotocol.org.~~

~~[32] Available at http://www.ghgprotocol.org.~~

- ~~**Climate Change Statement** – A statement of the company's current position on climate change, its responsibility to address climate change, and its engagement with governments and advocacy organizations to affect climate change policy.~~

- ~~**Emissions Management** – Explanation of all significant actions the company is taking to minimize its climate risk and to identify opportunities. Specifically, this should include the actions the company is taking to reduce, offset, or limit greenhouse gas emissions. Actions could include establishment of emissions reduction targets, participation in emissions trading schemes, investment in clean energy technologies, and development and design of new products. Descriptions of greenhouse gas reduction activities and mitigation projects should include estimated emission reductions and timelines.~~

- ~~**Corporate Governance of Climate Change** – A description of the company's corporate governance actions, including whether the Board has been engaged on climate change and the executives in charge of addressing climate risk. In addition, companies should disclose whether executive compensation is tied to meeting corporate climate objectives, and if so, a description of how they are linked.~~

~~**3. Assessment of Physical Risks of Climate Change – Climate change is beginning to cause an array of physical effects, many of which can have significant implications for companies and their investors. To help investors analyze these risks, investors encourage companies to analyze and disclose material, physical effects that climate change may have on the company's business and its operations, including their supply chain.**~~

~~Specifically, investors urge companies to begin by disclosing how climate and weather generally affect their business and its operations, including their supply chain. These effects may include the impact of changed weather patterns, such as increased number and intensity of storms; sea-level rise; water availability and other hydrological effects; changes in temperature; and impacts of health effects, such as heat-related illness or disease, on their workforce. After identifying these risk exposures, companies should describe how they could adapt to the physical risks of climate change and estimate the potential costs of adaptation.~~

~~**4. Analysis of Regulatory Risks – As governments begin to address climate change by adopting new regulations that limit greenhouse gas emissions, companies with direct or indirect emissions may face regulatory risks that could have significant implications. Investors seek to understand these risks and to assess the potential financial impacts of climate change regulations on the company.**~~

~~Specifically, investors strongly urge companies to disclose:~~

- ~~Any known trends, events, demands, commitments, and uncertainties stemming from climate change that are reasonably likely to have a material effect on financial condition or operating performance. This analysis should include consideration of secondary effects of regulation such as increased energy and transportation costs.~~

~~The analysis should incorporate the possibility that consumer demand may shift sharply due to changes in domestic and international energy markets.~~

- ~~A list of all greenhouse gas regulations that have been imposed in the countries in which the company operates and an assessment of the potential financial impact of those rules.~~

- ~~The company's expectations concerning the future cost of carbon resulting from emissions reductions of five, ten, and twenty percent below 2000 levels by 2015. Alternatively, companies could analyze and quantify the effect on the firm and shareowner value of a limited number of plausible greenhouse gas regulatory scenarios. These scenarios should include plausible greenhouse gas regulations that are under discussion by governments in countries where they operate. Companies should use the approach that provides the most meaningful disclosure, while also applying, where possible, a common analytic framework in order to facilitate comparative analyses across companies. Companies should clearly state the methods and assumptions used in their analyses for either alternative.~~